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Restored route wins KCS freight

With traffic up and costs down, Kansas City Southern's new Texas route looks like a good investment

Kansas City Southern spent a whopping \$177 million to restore 87.5 miles of ex-Southern Pacific track in South Texas to operation, so it's worth asking: Was it worth it? The numbers that have come out for the first year make the answer clear: Absolutely. KCS's cross-border revenue is up 55 percent, while costs on trains to and from Mexico are down across the board.

The story starts in 2000, when then KCS President and CEO Mike Haverty set his Mexican strategy in motion. The plan called for control of both the Texas Mexican and Grupo TFM, and to run them as one with the existing KCS network north of the border. Tex-Mex had trackage rights over Union Pacific between its own rails at Robstown and the KCS connection at Beaumont as a condition of the 1996 UP-Southern Pacific merger, so Tex-Mex was a natural extension.

As Mexico's largest railroad, TFM handled 46 percent of all rail traffic in Mexico and 60 percent of all freight crossing the border from the United States. It was the dominant railroad serving Mexico's industrial heartland, Mexico City, and the Pacific port of Lazaro Cardenas. KCS completed the deal in 2005, and Grupo TFM became Kansas City Southern de Mexico, the southern half of the fully integrated 6,000-mile KCS system, just as Haverty had planned.

However, the UP trackage rights tying the two parts together caused delays and added costs to the equation. Tex-Mex had purchased the ex-SP Wharton Subdivision in 2001, but by then, the line had sat dilapidated and mostly unused for more than a decade. Restoration would prove costly, and still leave 203 miles of UP trackage rights between Beaumont and Robstown.

But KCS saw a chance to improve its service, and in 2006 announced plans to restore the line. Train service began in June 2009, with a dedication ceremony July 17.

The project included rebuilding 8,266 lineal feet of infrastructure across 56 bridges, replacing all 87.5 miles of rail, inserting 247,000 new ties, and adding three new 10,000-foot sidings. For the moribund "Macaroni Line," named for the Italian immigrants who constructed it in 1882, the move meant a complete transformation.

The railroad has found a variety of freight for the route. In its first year, the line saw 30,000 carloads of corn and soybeans from the Midwest (KCS enjoys haulage rights over



Kansas City Southern's business train crosses the Colorado River at Hungerford, Texas, on July 17, 2009, the day of the new line's dedication. Norm Schultze

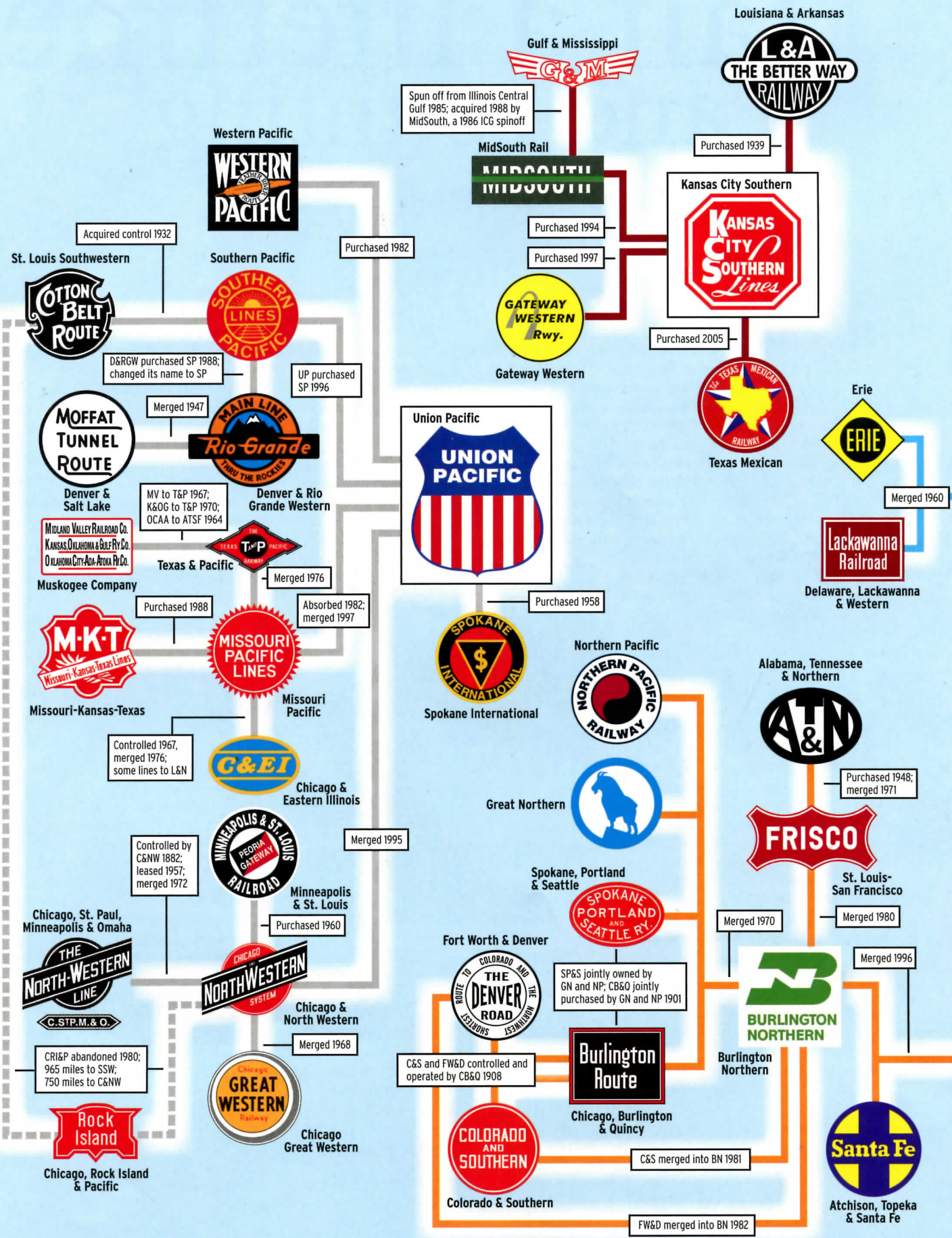
Canadian Pacific to elevators in Iowa and Minnesota) bound for Mexico. Other sources of traffic include aggregates and minerals; industrial products, including finished steel; and chemical commodities. A new Nissan auto distribution center also opened at Rosenberg last September. Additionally, the line is winning truck shipments to KCS Intermodal, though it's still a small total.

The shorter route offers KCS savings in several categories: Fuel and crew costs are down 10 percent. Trackage rights fees have dropped a staggering 60 percent. Car hire and locomotive usage costs have fallen, but by less dramatic amounts.

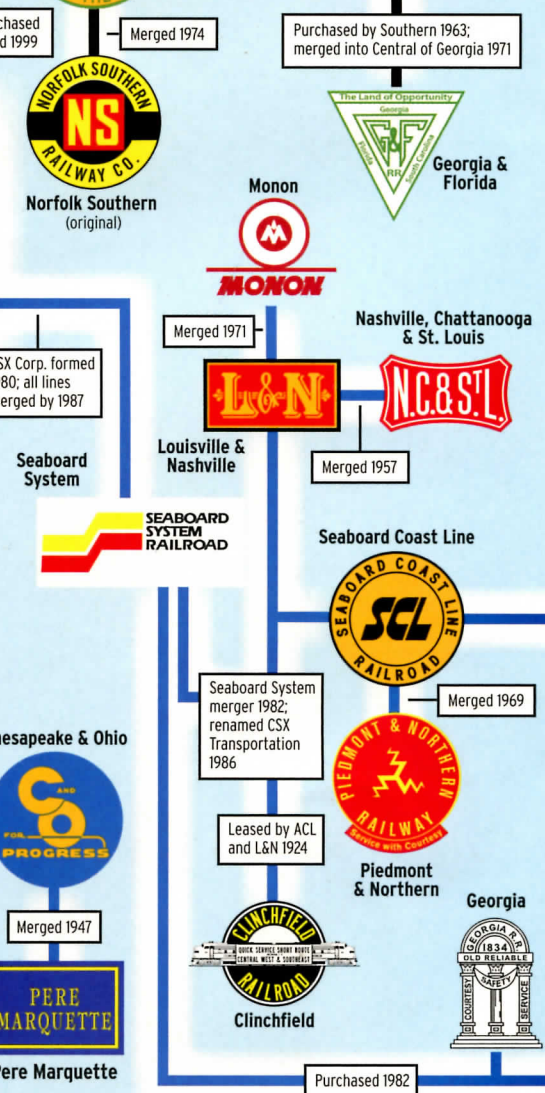
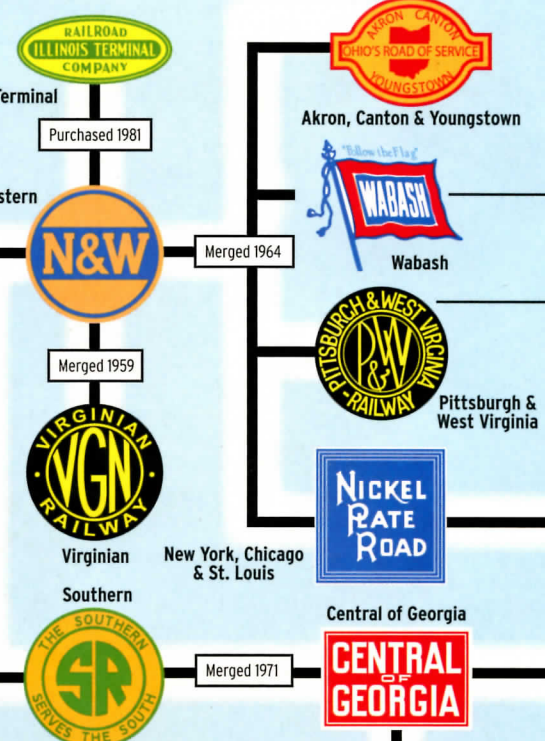
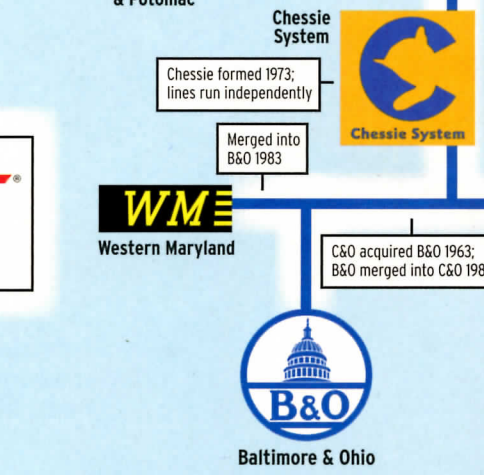
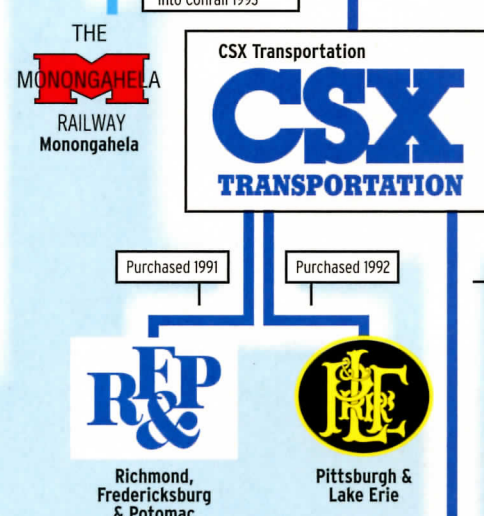
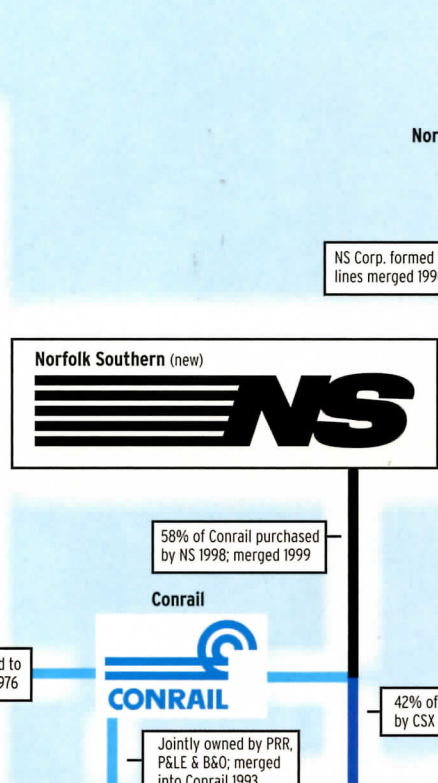
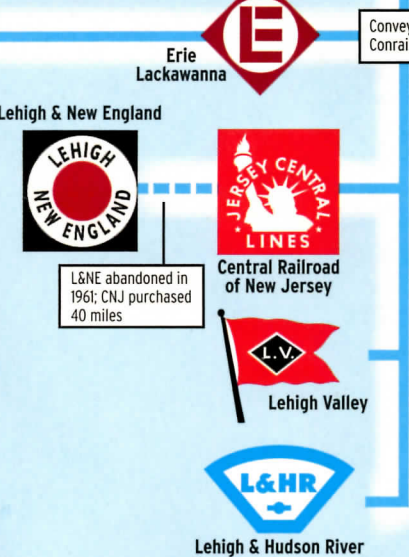
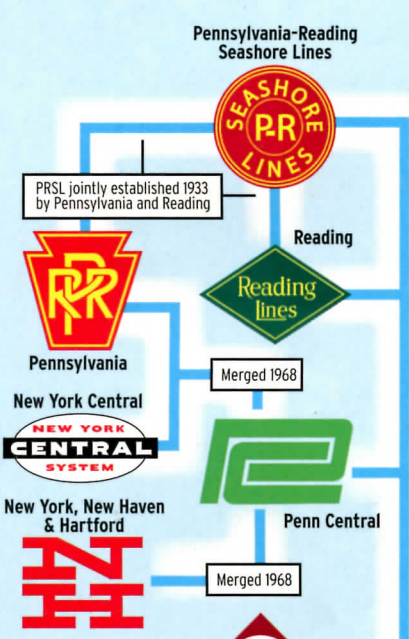
In all, KCS predicts the payoff will be \$18-20 million per year through a combination of lower costs and new business. Not bad for a line that sat unused for nearly 20 years. — Roy Blanchard



MAP OF THE MONTH



Purchased by N&W 1964; track sold to "new" W&LE 1990



Railroad family trees

How North America's seven Class I railroads came to be

